Project Gaudi : 76-Unit Residential Value-Add Opportunity (Barcelona)

Project Gaudi – 76-Unit Residential light Value-Add Opportunity

The opportunity

Asset: 76-Unit Apartment Complex in Barcelona (Eixample).

Strategy: Acquisition of an undermanaged asset at 5.8% Entry Cap Rate. Implementation of a light Capex plan to optimize NOI. Exit to Core Fund in Year 5.

Recommendation: Approval to acquire at €9.8M (€128k/unit).

Key Financials

Valuation: €9.8M

Total Capex: €187k light Value-Add

Stabilized Yield (YoC): 6.7%

Min. (DSCR) - Adj. NOI: 1.37x

Levered IRR: 15.23%

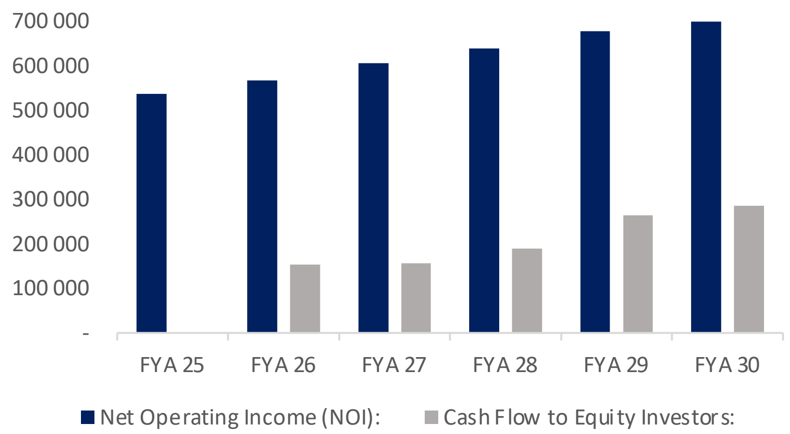
Equity Multiple: 1.95x

Deal Merits & Risks

Merits: High demand for rental units in BCN; Conservative underwriting (Exit Cap Expansion to 6.0%); Debt structure optimized (LTV 65%).

Risks: Rent Control regulation.

Mitigants: Conservative rent growth assumptions (3%); Fixed-price construction contract.



Supply/Demand Imbalance: Barcelona's residential market remains structurally undersupplied. Vacancy rates in the Eixample micro-market have compressed to <2%, ensuring immediate absorption of renovated units.

The asset demonstrates exceptional operational efficiency, converting a median of **32%** of NOI into Free Cash Flow to Equity (FCFE) over the 5-year hold. This high conversion ratio confirms robust debt service coverage and the ability to sustain consistent distributions even during the stabilization phase.

Financial Forecast & Key Metrics

Property Pro-Forma:	FYA 25	FYE 26	FYE 27	FYE 28	FYE 29	FYE 30	Stabilized Year:
Revenue:							
(+) Base Rental Income:	€ 929 024	€ 961 540	€ 995 194	€ 1 030 026	€ 1 060 926	€ 1 092 754	€ 1 125 537
(-) Loss to Lease:	(92 902)	(72 115)	(49 760)	(25 751)	(10 609)	(10 928)	(11 255)
(-) Bad Debt & Concessions:	(25 084)	(26 683)	(18 909)	(20 085)	(10 503)	(10 818)	(11 143)
(+) Parking Income:	51 528	53 331	55 198	57 130	58 844	60 609	62 428
(+) Utility Reimbursements:	62 016	66 272	70 727	75 390	80 269	85 374	87 935
Potential Gross Revenue:	**924 582**	**982 345**	**1 052 451**	**1 116 710**	**1 178 927**	**1 216 991**	**1 253 501**
(-) General Vacancy:	-	(9 823)	(21 049)	(33 501)	(35 368)	(36 510)	(37 605)
Effective Gross Income (EGI):	**924 582**	**972 521**	**1 031 402**	**1 083 208**	**1 143 559**	**1 180 481**	**1 215 896**
EGI Growth Rate:	*N/A*	*5,2%*	*6,1%*	*5,0%*	*5,6%*	*3,2%*	*3,0%*
Expenses:							
(-) Property Taxes:	(66 470)	(67 799)	(69 155)	(70 538)	(71 949)	(73 388)	(74 856)
(-) Insurance:	(21 774)	(22 427)	(23 100)	(23 793)	(24 507)	(25 242)	(25 999)
(-) Utilities:	(77 520)	(79 846)	(82 241)	(84 708)	(87 249)	(89 867)	(92 563)
(-) Property Management Fee:	(27 737)	(29 176)	(30 942)	(32 496)	(34 307)	(35 414)	(36 477)
(-) Sales, Marketing & Administrative:	(175 671)	(186 724)	(200 092)	(212 309)	(226 425)	(236 096)	(243 179)
(-) Replacement Reserves:	(19 000)	(19 570)	(20 157)	(20 762)	(21 385)	(22 026)	(22 687)
Total Expenses:	**(388 172)**	**(405 542)**	**(425 687)**	**(444 607)**	**(465 822)**	**(482 034)**	**(495 761)**
Net Operating Income (NOI):	**536 410**	**566 980**	**605 714**	**638 602**	**677 738**	**698 447**	**720 135**
NOI Margin:	*58,0%*	*58,3%*	*58,7%*	*59,0%*	*59,3%*	*59,2%*	*59,2%*
(-) Capital Expenditures:	-	(38 000)	(76 000)	(57 000)	-	(15 200)	-
(+) Capital Costs Paid from Reserves:	-	38 000	39 727	20 762	-	15 200	-
Adjusted Net Operating Income:	**536 410**	**566 980**	**569 441**	**602 364**	**677 738**	**698 447**	**720 135**
Adjusted NOI Margin:	*58,0%*	*58,3%*	*55,2%*	*55,6%*	*59,3%*	*59,2%*	*59,2%*
(-) Interest Expense on Debt:		(317 688)	(312 906)	(307 885)	(302 613)	(297 078)	
(-) Debt Principal Repayment:		(95 633)	(100 415)	(105 435)	(110 707)	(116 243)	
Cash Flow to Equity Investors:		**153 659**	**156 121**	**189 043**	**264 417**	**285 127**	

Debt Forecast & Key Metrics

Sources and Uses of Funds:

Sources of Funds:		
Senior Debt:	€	6 353 750
Investor Equity:		3 601 538
Total Sources:	**€**	**9 955 288**

Uses of Funds:		
Acquisition Price:	€	9 775 000
Acquisition Costs:		97 750
Replacement Reserves:		63 538
Replacement Reserves:		19 000
Total Uses:	**€**	**9 955 288**

- **Optimized Senior Leverage:** 65% LTV facility at a competitive 5.0% all-in rate. The structure utilizes a 30-year amortization schedule to minimize debt service and maximize Cash-on-Cash yields during the hold period.
- **Asset-Liability Matching:** The 5-Year Loan Term aligns perfectly with the target Disposition window, eliminating refinancing risk during the investment horizon.
- **Conservative Capitalization:** Uses include upfront funding of Loan Insurance and Replacement Reserves to fully derisk the Capex execution and ensure liquidity during the stabilization phase.

Debt Highlights

Property Pro-Forma:	FYA 25	FYE 26	FYE 27	FYE 28	FYE 29	FYE 30
Ending Debt Balance:	**6 353 750**	**6 258 117**	**6 157 702**	**6 052 267**	**5 941 560**	**5 825 317**
Debt Yield:		*8,9%*	*9,5%*	*10,1%*	*10,7%*	*11,0%*
Interest Coverage Ratio - NOI:		*1,78 x*	*1,94 x*	*2,07 x*	*2,24 x*	*2,35 x*
Interest Coverage Ratio - Adjusted NOI:		*1,78 x*	*1,82 x*	*1,96 x*	*2,24 x*	*2,35 x*
Debt Service Coverage Ratio (DSCR) - NOI:		*1,37 x*	*1,47 x*	*1,55 x*	*1,64 x*	*1,69 x*
Debt Service Coverage Ratio (DSCR) - Adj. NOI:		*1,37 x*	*1,38 x*	*1,46 x*	*1,64 x*	*1,69 x*

Sensitivity and Exit

IRR Calculations:	FYA 25	FYE 26	FYE 27	FYE 28	FYE 29	FYE 30
Unleveraged Internal Rate of Return (IRR):	**9,41%**					
Cash Flow to Equity Investors (Leveraged IRR):						
(+) Proceeds from Sale of Property:		-	-	-	-	12 002 242
(+) Return of Replacement Reserve:		-	-	-	-	28 211
(-) Selling Costs:		-	-	-	-	(240 045)
(+) Cash Flows to Equity Investors:		153 659	156 121	189 043	264 417	285 127
(-) Debt Principal Repayment Upon Exit:		-	-	-	-	(5 825 317)
(-) Initial Equity Investment:	(3 601 538)	-	-	-	-	-
Total Cash Flows to Equity (Leveraged IRR):	**-€ 3 601 538**	**€ 153 659**	**€ 156 121**	**€ 189 043**	**€ 264 417**	**€ 6 250 218**
Leveraged Internal Rate of Return (IRR):	**15,23%**					
Total Returns to Equity:	7 013 457					
Invested Equity:	3 601 538					
Cash-on-Cash Multiple:	*1,95 x*					

FYE 2030 IRR Sensitivity Analysis: Primary Value Drivers

Exit Cap Rate \ *Rent Growth*	2,5%	3,0%	3,5%	4,0%	4,5%
5,5%	18,06%	18,35%	18,64%	18,92%	19,20%
5,8%	16,32%	16,62%	16,91%	17,20%	17,49%
6,0%	14,62%	14,93%	$\boxed{15{,}23\%}$	15,52%	15,82%
6,3%	12,97%	13,28%	13,58%	13,89%	14,19%
6,5%	11,34%	11,66%	11,97%	12,28%	12,59%

The project achieves a Base Case Unlevered IRR of **15.23%,** demonstrating a robust return profile that remains resilient across various market shifts. The matrix indicates that while returns are sensitive to top-line performance, the investment maintains a significant margin of safety against capital market volatility. Even with moderate cap rate expansion, the 15.23% baseline is well-protected by organic rent growth, ensuring the project meets core return hurdles under multiple exit scenarios.

Transaction Summary & Strategic Rationale

Strategic Rationale

Acquisition of a defensive, undermanaged asset in Barcelona’s supply-constrained market, unlocking **immediate value** through targeted renovation and operational efficiency.

Revenue Expansion

Delivers a robust **1.95x Equity Multiple** with consistent cash flow, balancing immediate yield with significant capital appreciation upon exit.

DEBT & RETURNS

Optimized **65% LTV** structure drives a **15.2% Levered IRR**, fully supported by strong DSCR metrics and a conservative 20bps exit yield expansion buffer.

VALUATION & RECOMMENDATION

Project Gaudi represents a rare asymmetric risk/reward opportunity: entering at a discount to replacement cost with clear operational levers to force appreciation independent of market beta. The business plan relies on proven execution (renovation/lease-up) rather than speculative cap rate compression, ensuring capital preservation even in a softening macro environment. Based on our underwriting of a **Year 1 NOI of €566,580** and applying a market-standard **Entry Cap Rate of 5.8%**, we advise a **Sale Price of €9.8M**.
This valuation reflects the asset's current operational reality while pricing in the identified reversionary potential. At this entry point, the transaction offers an incoming investor a **Stabilized Yield on Cost of 6.7%** (Year 4), providing a healthy 70bps spread over the modeled Exit Cap Rate (6.0%) and ensuring deep downside protection.

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